

Message Text

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DOEE-00 SSO-00 XMB-04 /152 W
-----062203 101921Z /42

P R 101835Z MAY 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 6011
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 4 - MAY 10
SUMMARY: RECENT ECONOMIC STATISTICS ARE RAISING THE LEVEL OF CONCERN IN UK MARKETS. ALTHOUGH THE 12-MONTH AVERAGE
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AGE OF WHOLESALE PRICES OF FINISHED GOODS CONTINUES TO
FALL, RAW MATERIAL PRICES ARE RISING AGAIN. ELIGIBLE
LIABILITIES IN THE BANKING MONTH TO APRIL 19 GREW 3.1
PERCENT. THE VOLUME OF RETAIL SALES GREW marginally IN
MARCH BUT HAS GROWN 5.2 PERCENT OVER THE LAST 12 MONTHS.
HIRE PURCHASE CREDIT INCREASED 2.3 PERCENT IN MARCH. THE
TOTAL ASSETS AND LIABILITIES OF THE LONDON CLEARING BANKS

GREW SUBSTANTIALLY IN THE APRIL 19 BANKING MONTH. STERLING IS CURRENTLY IN A TESTING PERIOD, WITH ACTIVITY SHIFTED TO THE FORWARDS; ALTHOUGH THE MARKET TOOK THE GROWTH IN ELIGIBLE LIABILITIES CALMLY, IT IS AWAITING PUBLICATION OF NEXT WEEK'S TRADE STATISTICS. MARKET ANALYSTS ARE DISCUSSING THE CONDITIONS UNDER WHICH STERLING MIGHT WEAKEN LATER THIS YEAR. SHORT-TERM INTEREST RATES MOVED UP THIS WEEK, AND ANOTHER INCREASE IN MLR IS ANTICIPATED FOLLOWING LAST WEEK'S 1-1/4 PERCENT RISE. THE CBI'S LATEST SURVEY INDICATES WANING OPTIMISM AMONG UK BUSINESSMEN. END SUMMARY

1. WHOLESALE PRICES. WHOLESALE PRICES INCREASED SHARPLY IN APRIL. THE FOLLOWING TABLE SUMMARIZES THE LATEST MONTHLY AND QUARTERLY DATA: (1970 EQUALS 100)

	RAW	PERCENT CHANGE	PERCENT CHANGE	
	MATERIALS	FROM 12 MOS.	FINISHED	FROM 12 MOS.
	AND FUELS	EARLIER	GOODS	EARLIER
1977 I	341.5	28.1	248.0	19.9
II	347.7	18.8	259.2	20.9
III	340.5	11.0	267.7	19.9
IV	330.6	0.2	272.1	16.3
1978 I	P 326.7	- 4.3	278.9	12.5
JAN	324.9	- 3.8	277.1	13.2
FEB	324.2	- 4.5	279.2	12.5
MAR	P 330.9	- 4.7	280.5	11.8

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APR P 337.2 - 3.6 282.6 10.7

P - PROVISIONAL

THE RAW MATERIALS AND FUELS INDEX ROSE A FURTHER 1.9 PERCENT IN APRIL AFTER A 2.1 PERCENT INCREASE IN MARCH. THESE SHARP RISES ARE DUE PRINCIPALLY TO THE WEAKENING IN THE VALUE OF STERLING. THE POUND HAS DECLINED BY MORE THAN 5 PERCENT ON A TRADE-WEIGHTED BASIS SINCE FEBRUARY. THE FINISHED GOODS INDEX ROSE 0.5 PERCENT IN APRIL, RATHER MORE THAN IN PREVIOUS MONTHS. STILL THE ANNUALIZED RATE OF PRICE INCREASE OVER THE LAST 6 MONTHS WAS 8.3 PERCENT.

THE RISE IN RAW MATERIALS PRICES IN MARCH AND APRIL REVERSES A FALLING TREND OF NEARLY A YEAR IN LENGTH. GIVEN THE LAGS WHICH GOVERN THE RATE AT WHICH THESE PRICE INCREASES APPEAR AT VARIOUS STAGES IN THE CYCLE OF PRODUCTION AND DISTRIBUTION, IT IS UNLIKELY THAT RETAIL PRICES WILL BEGIN TO REFLECT THE MARCH AND APRIL RISES UNTIL THE FOURTH QUARTER OF 1978.

2. THE ELIGIBLE LIABILITIES OF THE BANKING SYSTEM (ELS), ONE OF THE LARGE MONETARY AGGREGATES, GREW 3.1 PERCENT IN THE BANKING MONTH WHICH ENDED APRIL 19. THE ELS THUS

GREW 22.4 PERCENT OVER THE 12 MONTHS TO APRIL 19, THE
1977/78 FINANCIAL YEAR. THE APRIL INCREASE CAME AS THE
BANKING SYSTEM'S RESERVE RATIO FELL TO 13.9 PERCENT, THE
LOWEST LEVEL OF THE YEAR. (IF THE PREVIOUS MONTH'S RATIO
HAD BEEN MAINTAINED, ELS WOULD HAVE GROWN 1.8 PERCENT

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OVER THE APRIL BANKING MONTH.) THE RESERVE ASSETS OF THE
BANKING SYSTEM ROSE 92 MILLION POUNDS, AND THERE WERE
PERCEPTIBLE CHANGES IN THE COMPOSITION OF BANKS' RESERVE
ASSET PORTFOLIOS. THE BANKING STATISTICS MAY BE SUM-
MARIZED:

APR. 20 MAR.15 APR. 19
1977 1978 1978
(MILLIONS OF POUNDS)

ELIGIBLE LIABILITIES 35,843 42,578 43,889
 OF WHICH INTEREST BEARING 24,009 28,692 29,397
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TOTAL RESERVE ASSETS 5,077 6,019 6,111
 OF WHICH:
 BALANCES WITH THE
 BANK OF ENGLAND 334 266 355
 MONEY AT CALL WITH THE
 DISCOUNT MARKET 1,999 3,377 3,310
 U.K. & NORTHERN IRELAND
 TREASURY BILLS 1,307 718 842
 LOCAL AUTHORITY & COM-
 MERCIAL BILLS 696 815 863
 BRITISH GOV. STOCKS WITH LESS
 THAN ONE YEAR TO
 MATURITY 599 596 496
 RESERVE RATIO (PERCENT) 14.2 14.1 13.9

ALTHOUGH THE BANKING STATISTICS ON ELS AND BANK RESERVES
 ARE NOT SEASONALLY ADJUSTED AND DO NOT OFFER AN ACCURATE
 PREDICTION OF CHANGES IN M3, THE MONETARY AGGREGATE IN
 TERMS OF WHICH THE GOVERNMENT SETS ITS TARGETS, MARKET
 SOURCES ARE NOW CONCERNED ABOUT THE LEVEL OF MONETARY
 GROWTH.

3. THE FINAL ESTIMATE OF THE VOLUME OF RETAIL SALES IN
 MARCH WAS A MARGINAL 0.2 PERCENT ABOVE THE REVISED FEB-
 RUARY LEVEL. RETAIL SALES VOLUME IN MARCH 1978 STANDS
 5.2 PERCENT ABOVE ITS MARCH 1977 LEVEL. THE FOL-
 LOWING TABLE GIVES THE MOST RECENT REVISION OF THE STA-
 TISTICS:

(SEASONALLY ADJUSTED)
 PERCENTAGE ANNUALIZED
 SALES BY VOLUME CHANGE OF LATEST THREE
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(1971 EQUALS 100) MONTHS OVER PREVIOUS
 1977 THREE MONTHS
 MARCH 101.7 N.A.
 JUNE 102.1 R - 3.4
 JULY 104.8 R 2.8
 AUGUST 104.7 R 5.9
 SEPTEMBER 103.5 R 7.2

OCTOBER	102.7	R	1.0
NOVEMBER	103.1	R	- 3.0
DECEMBER	106.9	R	- 0.4

1978

JANUARY	104.9	R	5.3
FEBRUARY	106.8	R	12.6
MARCH	107.0	R	7.4

R - REVISED

4. THE LONDON CLEARING BANKS' TOTAL LIABILITIES AND ASSETS ROSE 2,434 MILLION POUNDS, OR 4.0 PERCENT, IN THE BANKING MONTH ENDED APRIL 19. THIS EXTRAORDINARILY LARGE INCREASE CAME IN THE FACE OF A HIGH LEVEL OF INTERBANK ACTIVITY. MARKET LOANS IN STERLING TO U.K. BANKS INCREASED 668 MILLION POUNDS AND STERLING C.D. HOLDINGS INCREASED 163 MILLION POUNDS. ON THE OTHER HAND, THE U.K. BANKING SECTOR INCREASED ITS DEPOSITS WITH THE LONDON CLEARING BANKS BY 795 MILLION POUNDS DURING THE APRIL BANKING MONTH. DEPOSITS FROM THE U.K. PRIVATE SECTOR INCREASED 938 MILLION POUNDS AND THOSE FROM THE PUBLIC SECTOR 109 MILLION POUNDS. ADVANCES TO THE U.K. PRIVATE SECTOR INCREASED BUT 159 MILLION POUNDS, OR 0.9 PERCENT.

5. STATISTICS ONHIRE PURCHASE CREDIT SHOW TOTAL DEBT OUTSTANDING FROM FINANCE HOUSES AND RETAILERS TO HAVE GROWN 2.3 PERCENT IN MARCH, AND 25.6 PERCENT OVER THE PREVIOUS TWELVE MONTHS. THE LATEST LEVELS ARE:

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DOEE-00 SSO-00 XMB-04 /152 W

-----062276 101927Z /42

P R 101835Z MAY 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 6013

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY PARIS

AMEMBASSY ROME

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(MILLIONS OF POUNDS)

TOTAL DEBT

NEW CREDIT EXTENDED OUTSTANDING

FINANCE HOUSES RETAILERS (SEASONALLY

(SEASONALLY ADJUSTED) UNADJUSTED)

JANUARY	213	216	3328
FEBRUARY	201	217	3429
MARCH	212	201	3507

6. A. STERLING IS IN A TESTING PERIOD. MOST FOREIGN

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EXCHANGE DEALERS ARE FOCUSING ON NEXT MONDAY'S TRADE FIGURES TO GIVE A NEAR-TERM TONE TO THE MARKET. IF THE FIGURES ARE GOOD, STERLING COULD STRENGTHEN SOMEWHAT. OTHERWISE, THE MARKET REMAINS NERVOUS AND APPREHENSIVE. THE MARKET REPORTS THE BANK OF ENGLAND WAS SEEN INTERVENING HEAVILY THROUGHOUT THE WEEK, ESPECIALLY ON TUESDAY WHEN THE RATE FELL BELOW \$1.81. THE INTERVENTION IS REPORTED TO HAVE HELPED SPOT RECOVER, BUT ACTIVITY IS SHIFTING TO THE FORWARDS, WHICH WIDENED DRASTICALLY, PARTLY BECAUSE LEADS AND LAGS ARE BEGINNING TO MAKE THEMSELVES FELT.

B. MANY OBSERVERS HAD DISCOUNTED -- AT LEAST TO SOME EXTENT -- THE SHARP INCREASE IN ELIGIBLE LIABILITIES BUT THERE IS A WIDESPREAD EXPECTATION THAT MLR WILL RISE AGAIN DURING COMING WEEKS, FOLLOWING LAST WEEK'S "UNTIDY INCREASE" OF 175 BASIS POINTS. UNLESS THERE ARE SOME GOOD ECONOMIC INDICATIONS FAIRLY SOON ON EITHER

MONEY SUPPLY OR TRADE FIGURES, THE MARKET EXPECTS TO SEE STERLING WEAKNESS LATER IN THE YEAR.

C. THIS WEEK HAS SEEN SOME GENERALIZED DISCUSSION OF LONGER TERM RATES, CENTERING AROUND A FINANCIAL TIMES CONFERENCE ESTIMATE GIVEN BY THE MANAGING DIRECTOR OF FOREX RESEARCH (SEE P. 27 OF MAY 10 FINANCIAL TIMES). THE DOLLAR WAS GENERALLY SEEN AS SLIGHTLY UNDERVALUED AGAINST ALL MAJOR CURRENCIES EXCEPT THE YEN, WHICH REMAINS OVERVALUED AGAINST THE DOLLAR. IN THE CONTEXT OF TRENDS TO 1981, STERLING WAS EXPECTED TO WEAKEN AGAINST THE DOLLAR THROUGH 1979, THERE STABILIZE AND PERHAPS STRENGTHEN, ENDING 1981 IN A \$1.75 - \$1.80 RANGE. MOST SENIOR FOREIGN EXCHANGE OFFICIALS AT THE CONFERENCE CONSIDERED THIS TOO OPTIMISTIC, SEEING THE DOLLAR/POUND LEVEL AT END-1981 IN A \$1.70 - \$1.75 RANGE.

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7. SHORT-TERM INTEREST RATES ROSE SHARPLY OVER THE WEEK. ON FRIDAY THE MINIMUM LENDING RATE (MLR) ROSE 1-1/4 PERCENT. THE LONDON AND SCOTTISH CLEARING BANKS, FOLLOWING THE MLR INCREASE, RAISED THEIR BASE LENDING RATE 1-1/2 PERCENT TO 9 PERCENT AND THEIR INTEREST ON 7-DAY NOTICE ACCOUNTS AND SAVINGS BANK ACCOUNTS FROM 4 TO 6 PERCENT. MARKET SOURCES INDICATE THAT MLR WAS EXPECTED TO INCREASE EVEN FURTHER, TO 9 PERCENT OR MORE, AND SHORT-TERM RATES BEGAN TO RISE ON MONDAY, EVEN BEFORE THE NEWS ON EL GROWTH WAS ANNOUNCED.

8. THE GILT MARKET WAS ON THE WHOLE STABLE THIS WEEK, ALTHOUGH THE NEWS OF EL GROWTH IS REPORTED TO HAVE COST A POUND IN THE PRICE OF MOST ISSUES. THE GOVERNMENT BROKER IS STILL NOT SELLING GILTS. A MARKET SOURCE IN FACT ATTRIBUTES THE ACCELERATING INCREASES IN THE MONETARY AGGREGATES TO DIFFICULTIES IN THE GOVERNMENT'S FUNDING PROGRAM. IT IS SUGGESTED THAT EVEN HIGHER INTEREST RATES WILL BE NECESSARY IF THERE ARE TO BE RENEWED TAP SALES. ALL OF THE FINANCIAL MARKETS ARE AWAITING NEXT WEEK'S TRADE FIGURES WITH SOME ANXIETY.

9. THE CONFEDERATION OF BRITISH INDUSTRY'S (CBI) LATEST QUARTERLY TRENDS SURVEY IS WIDELY INTERPRETED TO INDICATE DEPRESSED CONFIDENCE IN UK ECONOMIC PROSPECTS. THE SURVEY, TAKEN IN THE TWO WEEKS FOLLOWING THE APRIL 11 BUDGET COVERED 2,032 COMPANIES. CBI SAID "IN TERMS OF CAPACITY WORKING AND PAST TRENDS IN NEW ORDERS AND OUTPUT, THE GENERAL PICTURE IN MANUFACTURING INDUSTRY HAS AGAIN BEEN ONE OF STAGNATION OR LITTLE BETTER. ... EXPORT PROSPECTS ARE WEAK WITH FIRMS EXPERIENCING DETERIORATING

PRICE COMPETITIVENESS IN DEPRESSED MARKETS," BUT THAT "ON
THE BRIGHTER SIDE INVESTMENT INTENTIONS REMAIN QUITE
STRONG. COST INCREASES ARE BECOMING A LITTLE LESS WIDE-
SPREAD AND THE FINANCIAL POSITION OF MANUFACTURING INDUS-
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TRY DOES NOT APPEAR TO BE WORSENING."

AMONG THE MOST SIGNIFICANT CHANGES FROM THE LAST SUR-
VEY CARRIED OUT IN APRIL WERE:

- A. 23 PERCENT OF THE RESPONDENTS SAID THAT THE TREND
IN THE VOLUME OF EXPORT ORDERS HAD BEEN UP OVER

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THE PAST FOUR MONTHS, AND 34 PERCENT SAID IT WAS DOWN. IN FEBRUARY 30 PERCENT REPLIED UP AND 25 PERCENT DOWN.

- B. 42 PERCENT RESPONDED IN APRIL THAT THE TREND OVER THE PAST FOUR MONTHS IN THE PRICES AT WHICH EXPORT ORDERS ARE BOOKED IS UP, 41 PERCENT RESPONDED THE SAME AND 15 PERCENT RESPONDED DOWN. IN FEBRUARY THE REPLIES WERE RESPECTIVELY 31 PERCENT, 51 PERCENT AND 15 PERCENT.

- C. 27 PERCENT EXPECTED THE TREND IN OUTPUT VOLUME
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TO BE UP DURING THE NEXT FOUR MONTHS, 62 PERCENT THE SAME, AND 11 PERCENT DOWN. IN FEBRUARY THE REPLIES WERE DISTRIBUTED 31 PERCENT, 56 PERCENT AND 12 PERCENT.

- D. THE TREND IN NUMBERS EMPLOYED OVER THE LAST FOUR MONTHS WAS SEEN TO HAVE BEEN UP BY 15 PERCENT OF THE RESPONDENTS THE SAME BY 49 PERCENT OF THE RESPONDENTS AND DOWN BY 35 PERCENT. THE REPLIES IN FEBRUARY WERE DISTRIBUTED RESPECTIVELY 19 PERCENT, 54 PERCENT AND 27 PERCENT.

10. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
5/3	1.8255	61.5	171
5/4	1.8285	61.5	173-5/8
5/5	1.8275	61.5	172-7/8
5/8	1.8180	61.3	172-3/8
5/9	1.8120	61.3	173-1/8
CHANGE 5/2-5/9 DOWN 0.0145 DOWN 0.3 UP 4			

11. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/3	- 0.42	- 1.23	- 2.35
5/4	- 0.42	- 1.25	- 2.45
5/5	- 0.37	- 1.25	- 2.55
5/8	- 0.38	- 1.21	- 2.53
5/9	- 0.60	- 1.60	- 3.23
CHANGE 5/2-5/9 DOWN 0.18 DOWN 0.48 DOWN 0.96 (ALL FIGURES IN CENTS)			

12. EURODOLLAR INTEREST RATE

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DATE	1 MONTH	3 MONTHS	6 MONTHS
5/3	7	7-1/2	8
5/4	7-1/2	7-5/8	8
5/5	7-7/8	7-3/4	8
5/7	7-5/8	7-7/8	8-1/8
5/8	7-1/2	7-7/8	8-1/8

CHANGE 5/2-5/9 UP 1/8 UNCHANGED UP 1/8

13. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
5/3	1-11/32
5/4	1-5/16
5/5	21/32
5/7	1
5/8	1-1/8

CHANGE 5/2-5/9 UP 5/16

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14. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/3	7-23/32	8-9/16	8-7/8
5/4	8-5/32	8-3/4	9-1/16
5/5	8-3/8	8-19/32	8-7/8
5/8	8-11/32	8-23/32	9-1/16
5/9	8-1/2	9	9-7/16
CHANGE 5/2-5/9	UP 23/32	UP 3/8	UP 1/2

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15. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERN-
MENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
5/3	11.02	12.62	12.97
5/4	11.08	12.62	12.99
5/5	10.99	12.55	12.81
5/8	11.05	12.61	12.96
5/9	11.13	12.67	13.01
CHANGE 5/2-5/9	UP 0.14	UNCHANGED	UP 0.01

16. THE MINIMUM LENDING RATE ROSE 1-1/4 PERCENT TO 8-3/4 PERCENT AFTER FRIDAY'S TREASURY BILL AUCTION PUSHED THE AVERAGE TREASURY BILL RATE TO 8.2225 PERCENT, A RISE OF 1.2237 PERCENT ON THE WEEK. THERE WERE 1,662.47 MILLION POUNDS IN BIDS FOR THE 500 MILLION POUNDS IN BILLS TENDERED. THIS WEEK 500 MILLION POUNDS IN BILLS WILL AGAIN BE OFFERED AS 300 MILLION POUNDS MATURE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON07412
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USMTN AND USOECD
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780199-0017
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780574/aaaac1cb.tel
Line Count: 590
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 994f30a1-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2737467
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 4 - MAY 10 SUMMARY: RECENT ECONOMIC STATISTICS ARE RAISING THE LEVEL OF CONCERN IN UK MARKETS. ALTHOUGH THE 1 2-MONT
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To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/994f30a1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014